



**Report to the Legislature**

**FY01-03 Utilization and Cost Containment Initiative**

Chapter 7, Laws of 2001, E2, Section 209(1)

March 1, 2002

(Revised April 15, 2002)

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**Executive Summary**

**Legislative Mandate** - Chapter 7, Laws of 2001, E2, Section 209(1), the Operating Budget, provides that "The department (of Social & Health Services) shall increase its efforts to restrain the growth of health care costs." The chapter law adds, "The appropriations in this section anticipate that the department implements a combination of cost containment and utilization strategies sufficient to reduce general fund- -state costs by approximately 3 percent below the level projected for the 2001-03 biennium in the March 2001 forecast."

**Accomplishments in Utilization and Cost Containment (UCCI) Through December 2001** - The department has hired, and is now training, 45 new staff. Because these are revenue producing positions, hiring of additional UCCI staff is continuing. Cumulative savings and targets through December 2001, excluding the Family Planning Waiver project, are:

<b>July Through December 2001</b>	<b>Total</b> (millions)	<b>State</b> (millions)
Gross Savings Increase from UCCI:	\$ 17.68	\$ 8.75
Gross Savings Target from UCCI:	<u>\$ 13.10</u>	<u>\$ 6.48</u>
Gross Savings Above Target	\$ 4.58	\$ 2.27
UCCI Expenses:	<u>\$ (1.85)</u>	<u>\$ (0.86)</u>
Net Savings Above Target (through Dec. 2001):	\$ 2.73	\$ 1.41

MAA is somewhat ahead of planned savings for the first six months because of savings in Coordination of Benefits exceeding the July through December goal by \$2.1 million (State). See Exhibit D.

**Utilization and Cost Containment Initiative in 2002** - The UCCI gross savings target for the second semi-annual period (January through June 2002) excluding the Family Planning Waiver project, is \$28 million total (\$13.6 State), about double that of the first semi-annual period. Success is contingent on:

- Effective operation of a key new component, Therapeutic Consultation Service.
- Improved tracking of savings and increased productivity resulting from the successful training and deployment of new staff.

Therapeutic Consultation Service (TCS) includes clinical review of a client's fifth brand name prescription, and use of the department's current Preferred Drug List. TCS will enhance quality-of-care and reduce Medical Assistance Administration expenditures for prescription drugs. The service went into statewide operation on Friday, February 1, 2002 and is targeted to save \$20 million (\$10 million in State dollars) per year. An additional \$2.4 million (\$1.2 m State) annual savings is anticipated from the use of the Preferred Drug List. The general TCS approach is to work with physicians regarding their clients who have multiple drug prescriptions. Salient features of the service are briefly described in Exhibit E.

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**I. Introduction - Legislative Mandate**

Chapter 7, Laws of 2001 E2, Section 209(1), the Operating Budget, provides that "The department (of Social & Health Services) shall increase its efforts to restrain the growth of health care costs." Based on budget steps, legislative notes and follow-up discussions, overall FY01-03 savings targets are a net 50 million general fund-state (GF-S) dollars plus a net 32 million general fund-federal (GF-F) dollars. "Net savings" are total savings minus the cost of additional UCCI staff (salaries, benefits, etc.) and administrative services directly tied to the UCCI. Administrative services include assistance from the Office of the Attorney General (tort claims work), UCCI consultation, and pharmacy program assistance.

Chapter 7, Section 209(1) adds that, "If satisfactory progress is not being made to achieve the targeted savings, the reports shall include recommendations for additional or alternative measures to control costs." The Medical Assistance Administration will include an assessment of progress and recommendations, as needed, in this and subsequent reports to the Legislature.

**II. Progress Report**

This interim report addresses our achievement of savings both where a history (baseline) of cost containment exists, and through diversification and expansion of utilization and cost containment efforts.

**A. Accomplishments in the Utilization & Cost Containment Initiative (UCCI)**

The October 1, 2001 report to the Legislature provided preliminary savings targets, brief descriptions of the primary UCCI components, how UCCI was structured within the Medical Assistance Administration (MAA), and a phase 2 workplan covering October through December 2001. *(To request a copy of the October report, see the address or phone number on this report.)*

The UCCI project management structure and process have worked well to date, as indicated by the department's:

- Success in meeting savings targets for the July - December period.
- Success in hiring and training 45 UCCI staff as of December 31, 2001.
- Setting up and training of 66 program managers and analysts with web-based utilization and cost-modeling software (Health Watch Technologies (HWT) and HNC Software, Inc.), to assist in analyzing Medicaid Management Information Systems (MMIS) data.

## B. Revision of Savings Baselines and UCCI Targets

Exhibits A and B show the revised savings baselines and semi-annual UCCI goals. The baselines have been revised upward but total UCCI savings targets remain about the same.

**Baselines** - The October 2001 report to the Legislature, set a fixed baseline of savings for the FY01-03 biennium, using the last year of actual savings (FY2000) used in the March 2001 forecast. In this legislative report, the FY02 and FY03 baselines are revised upward to reflect inflation in the cost of Medicaid services that occurred, or is projected to occur since FY2000. The assumption is that savings from recoveries and cost avoidance would increase (by inflation), even without expanding the agency's savings efforts through UCCI.

**Savings targets by UCCI Component** - Although baselines changed, the savings targets due to UCCI did not change significantly because the required increase (\$82 million total and \$50 million State) did not change. (For specific inflation assumptions used to compute revised baselines, or details about UCCI components and savings targets, contact the administration at the address or phone number on the cover of this report.)

## C. Biennial Savings Targets and Actual Savings through December 2001

**Savings Targets** - In summary, biennial UCCI Savings Targets and Expense, are as follows:

<b>UCCI Biennial Savings Targets</b>	<b>Total Funds (Millions)</b>	<b>State Funds (Millions)</b>
• Prescription Drug Monitoring	\$ 33.6	\$ 16.7
• Utilization mgmt. (Quality Review)	9.2	4.6
• Rates Adjustment	4.7	2.3
• Transportation/Interpreter Serv.	1.4	0.7
• Coordination of Benefits	38.3	19.0
• Field Audits	13.8	6.8
• Family Planning Waiver	(2.5)	8.3
<b>UCCI Expense (FTEs and Other):</b>	<u>(15.0)</u>	<u>(6.5)</u>
<b>Net Biennial Savings (Target)</b>	<b>\$ 83.5</b>	<b>\$ 51.9</b>

**Goals and Net Savings through December 2001 (excluding the Family Planning Waiver Demonstration) are as follows:**

	<b>Total Funds</b> (millions)	<b>State Funds</b> (millions)
[a] July – Dec Baseline Savings Target ( <b>without UCCI</b> ):	\$ 47.72	\$ 23.62
[b] Savings Increase target ( <b>from UCCI</b> ):	<u>\$ 13.10</u>	<u>\$ 6.48</u>
[c] Total Savings Target (before expenses):	\$ 60.82	\$ 30.10
[d] July – Dec. <u>Total savings</u> (Baseline + UCCI)	\$ 65.40	\$ 32.37
[e] Savings from UCCI (above baseline):	\$ 17.68	\$ 8.75
Gross UCCI savings above Target [e] – [b]:	\$ 4.58	\$ 2.27
UCCI Expenses (FTE compensation + consultants):	<u>\$ ( 1.85)</u>	<u>\$ (0.86)</u>
Net UCCI savings above/(below) Target:	\$ 2.73	\$ 1.41

*Note: Family Planning Waiver Project savings and goals are not included because savings cannot yet be measured.*

Medical Assistance Administration is somewhat ahead of planned savings for the first six months because savings from Coordination of Benefits exceeded the July through December goal by \$2.1 million (State). See State savings through December 2001, Exhibit D and FTE and Related Expenses, Exhibit C.

For the first semi-annual period, Medical Assistance Administration had a UCCI gross savings target of \$13.1 million (\$6.48 million State). The UCCI savings target for the second semi-annual period, January through June 2002, is \$28 million total (\$13.6 State) or double that of the first semi-annual period. Success is contingent on timely start-up and effectiveness of a key new UCCI component, namely Therapeutic Consultation Service (TCS). See Exhibit E.

#### **D. Medicaid Expenditures compared to Budget/Forecast**

In addition to tracking savings from UCCI activities, MAA will document the impact of UCCI on per capita Medicaid expenditures. The purpose is to compare expenditures with the department's forecast and budget. The November update of the March 2001 forecast reflects the biennial budget passed by the legislature, including savings and expenses from the utilization and cost containment initiative.

Factors other than the initiative can dramatically impact Medicaid expenditures, both positively and negatively. In such circumstances, measuring the change in Medicaid expenditures involves identification and description of the factors (including UCCI), and quantifying the effect (increase or decrease) in per capita costs. The administration will work with the DSHS Budget Division and the Division of Research and Data Analysis to develop the methodology for this analysis.

**The “Yardstick”** - As noted, the 2001-03 biennial budget was built in the steps as follows:

- March 2001– The Medicaid forecast (not including budgeted savings from UCCI).

- The 2001 Session – The Legislature passed the 2001-03 budget that included \$82 million (\$50 million State) net savings from UCCI.
- November 2001 – The Medicaid expenditure forecast was updated to include UCCI savings in the 2001-03 biennium.

The March 2001 forecast, updated in November to include UCCI and reflect the biennial budget, will be the “yardstick” against which monthly expenditures will be measured.

Expenditures will be tracked by the following Medicaid client categories:

- Categorically Needy Aged, Blind and Disabled
- Medically Needy Aged, Blind and Disabled
- Medically Indigent
- General Assistance-Unemployable

*(The majority of children in Medicaid are enrolled in Managed Care. The UCCI does not directly impact the state’s cost of managed care.)*

Medicaid expenditures for the 2001-03 biennium are tracked monthly, but are not considered “final” until about 98 percent of claims have come in (4 to 5 months later). Only the July and August 2001 expenditures were available by the end of January 2002. These are not enough to determine a trend line or to analyze cause-and-effect. An analysis is targeted for no later than the September 2002 report to the Legislature.

### **III. The Utilization and Cost Containment Initiative in 2002**

#### **A. Implementation of a New UCCI Component - Therapeutic Consultation Service (TCS) and Preferred Drug List (PDL)**

Many aged, blind and disabled Medicaid clients have acute and/or chronic illness. Treatment may include multiple prescriptions, and one treating provider may not be aware that the patient is also in the care of other providers. Unless well managed by the patient, prescriber and pharmacist team, these and other client care situations present risks of over-prescribing and adverse effects from drug interactions. TCS and PDL are designed to assist that professional team.

TCS and PDL Services as described in the October 2001 report to the legislature is attached as Exhibit E. The service went into operation statewide on Friday, February 1, 2002 and is expected to realize annual savings of \$20 million (about \$10 million in State dollars) from Therapeutic Consultation plus \$2.4 million (\$1.2 million State) savings from use of preferred drugs. For more information, see Exhibit E.

#### **B. UCCI Growth and Strengthening**

The Medical Assistance Administration is continuing to improve its tracking of savings and is experiencing increased productivity as a result of the successful training and deployment of new UCCI staff. Key points of this growth and strengthening are provided in Exhibit F.

**IV. Exhibits - Exhibits A through F are provided on this and the following pages.**

**Exhibit A – FY02 Revised Baseline and Semi-Annual UCCI Savings Goals**

	FY02 Savings	SEMI-ANNUAL UCCI SAVINGS INCREASE				FY2002 UCCI SAVINGS INCREASE		
	Baseline	(July - December 01)		(January - June 02)		(July 01 - Jun 02)		
		State	Federal	State	Federal	State	Federal	Total
<b><u>Audit Activity</u></b>								
Hospital Audits	2,404,200	644,150	655,850	1,189,200	1,210,800	1,833,350	1,866,650	3,700,000
Medical Audits	300,000	672,640	684,860	672,640	684,860	1,345,280	1,369,720	2,715,000
<b>Total Audit Activity</b>		1,316,790	1,340,710	1,861,840	1,895,660	3,178,630	3,236,370	6,415,000
<b><u>Quality Review and Prior Authorization Activity</u></b>								
Durable and Non Durable Medical	New	49,550	50,450	123,880	126,120	173,430	176,570	350,000
Pharmacy Program	2,466,100	179,250	195,750	537,750	587,250	717,000	783,000	1,500,000
Hospital DRGs	New	0	0	118,400	120,600	118,400	120,600	239,000
Medical and Dental Program	2,403,300	371,620	378,380	371,620	378,380	743,240	756,760	1,500,000
<b>Total QRPAA</b>		600,420	624,580	1,151,650	1,212,350	1,752,070	1,836,930	3,589,000
<b><u>Increased Monitoring of Client Services</u></b>								
Interpreter Services	New	24,780	25,220	49,550	50,450	74,330	75,670	150,000
Transportation Services	New	49,550	50,440	123,880	126,130	173,430	176,570	350,000
<b>Total Monitor Activity</b>		74,330	75,660	173,430	176,580	247,760	252,240	500,000
<b><u>General Increase in Recoveries and Cost Avoidance</u></b>								
<b>Total COB &amp; Tort Claims</b>	87,866,400	4,492,599	4,574,201	4,492,599	4,574,201	8,985,199	9,148,401	18,133,600
<b><u>Rates Development and Monitoring</u></b>								
Additional Savings	New	0	0	396,400	403,600	396,400	403,600	800,000
<b><u>ACS 4-Brand Rx Limit</u></b>								
Therapeutic Consultation Service	New	0	0	4,966,600	5,033,400	4,966,600	5,033,400	10,000,000
<b><u>ACS - Therapeutic Interchange (Preferred Drug List)</u></b>								
Prescription drugs per capita	New	0	0	595,992	604,008	595,992	604,008	1,200,000
<b><u>Family Planning Waiver</u></b>								
Change in Pregnancy Rate	New	563,076	(3,299,671)	563,076	(3,299,671)	1,126,151	(6,599,341)	(5,473,190)
<b>Total UCCI Savings Goals</b>	95,440,000	7,047,215	3,315,480	14,201,587	10,600,128	21,248,802	13,915,608	35,164,400
FTEs & other Admin. Expense 1/		(863,800)	(985,700)	(1,500,500)	(1,988,500)	(2,364,300)	(2,974,200)	(5,338,500)
<b>Net FY02 UCCI Savings Goals</b>		6,183,400	2,329,800	12,701,100	8,611,600	18,884,500	10,941,400	29,825,900
1/ Jul-Dec Actual and Jan - Jun budgeted expense.								(Totals rounded)
File-H:/March 2002 Leg Rpt/Alloted Savings FY02 - Inflation in Base -Rev-A (4-03-02)								



## Exhibit B – FY03 Revised Baseline and Semi-Annual UCCI Savings Goals

		SEMI-ANNUAL UCCI SAVINGS INCREASES				FY2003 UCCI SAVINGS INCREASE		
	FY03 Savings	(July - December)		(January - June)		(July 02 - Jun 03)		
	Baseline	State	Federal	State	Federal	State	Federal	Total
<b><u>Audit Activity</u></b>								
Hospital Audits	2,440,700	1,164,420	1,185,580	1,164,420	1,185,580	2,328,840	2,371,160	4,700,000
Medical Audits	305,300	672,640	684,860	672,640	684,860	1,345,280	1,369,720	2,715,000
<b>Total Audit Activity</b>	2,746,000	1,837,060	1,870,440	1,837,060	1,870,440	3,674,120	3,740,880	7,415,000
<b><u>Quality Review and Prior Authorization Activity</u></b>								
Durable and Non Durable Medical	New	148,650	151,350	173,425	176,575	322,075	327,925	650,000
Pharmacy Program	2,555,500	619,380	630,620	619,380	630,620	1,238,760	1,261,240	2,500,000
Hospital DRGs	New	123,880	126,120	123,880	126,120	247,760	252,240	500,000
Medical & Dental Program	2,438,900	495,500	504,500	495,500	504,500	991,000	1,009,000	2,000,000
<b>Total QRPAA</b>	4,994,400	1,387,410	1,412,590	1,412,185	1,437,815	2,799,595	2,850,405	5,650,000
<b><u>Increased Monitoring of Client Services</u></b>								
Interpreter Services	New	49,550	50,450	74,320	75,680	123,870	126,130	250,000
Transportation Services	New	148,650	151,350	148,650	151,350	297,300	302,700	600,000
<b>Total Monitor Activity</b>		198,200	201,800	222,970	227,030	421,170	428,830	850,000
<b><u>General Increase in Recoveries and Cost Avoidance</u></b>								
<b>Total COB &amp; Tort Claims</b>	89,819,800	4,999,640	5,090,460	4,999,640	5,090,460	9,999,280	10,180,920	20,180,200
<b><u>Rates Development and Monitoring</u></b>								
Additional Savings	New	957,859	972,141	957,859	972,141	1,915,718	1,944,282	3,860,000
<b><u>ACS 4-Brand Rx Limit</u></b>								
Therapeutic Consultation Service	New	4,966,600	5,033,400	4,966,600	5,033,400	9,933,200	10,066,800	20,000,000
<b><u>ACS - Therapeutic Interchange (Preferred Drug List)</u></b>								
Prescription drugs	New	595,992	604,008	595,992	604,008	1,191,984	1,208,016	2,400,000
<b><u>Family Planning Waiver</u></b>								
Additional savings (Rev. 11-26-01)	New	3,595,720	(2,133,020)	3,595,720	(2,133,020)	7,191,440	(4,266,040)	2,925,400
<b>Total UCCI Target</b>	97,560,200	18,538,481	13,051,819	18,588,026	13,102,274	37,126,507	26,154,093	63,280,600
Administrative Expenses		(2,060,500)	(2,768,500)	(2,060,500)	(2,768,500)	(4,121,000)	(5,537,000)	(9,658,000)
Net FY03 UCCI Savings Goals		16,478,000	10,283,300	16,527,500	10,333,800	33,005,500	20,617,100	53,622,600
Net FY02 UCCI Savings Goals						18,884,500	10,941,400	29,825,900
Net FY02-03 UCCI Savings Goals						51,890,000	31,558,500	83,448,500
								Totals Rounded
File:H:\Leg Report - Allotted Savings FY03 - (VRI in Base) Rev.A (4-3-02)								

## **Exhibit C. FTEs and RELATED EXPENSE**

In addition to tracking savings by division and UCCI component within the administration, the cost of FTEs and UCCI related services are being tracked - and counted against total savings. By December 31, 2001, MAA had hired 45 UCCI-funded staff.

UCCI staff have special accounting system codes for tracking salaries, benefits and travel. As new staff are added their costs will be reported using these allocation codes. The Financial Reporting System (FRS) for July through December shows the cost of UCCI compensation (salary and fringe benefits) of \$678,000 (\$270,000 GF-S). Beginning in January, FY2002 compensation is expected to grow from about \$200,000 (total dollars) per month for 45 full time staff, to about \$330,000 per month at full staffing.

**Exhibit D – State Fund Savings and Targets By UCCI Component (July- Dec. 2001)**

File: 9-1-02 Leg Rept/State Savings Thru Dec 2001 by Component - Revised 3-20-02					
	July - Dec 2001 Target (State Funds)			July - Dec Savings (State)	
FY2002		UCCI	Overall		Toward \$50m
				Overall	Biennial UCCI
	Baseline	Increase	Target		Target 3/
<b><u>Audit Activity</u></b>					
Hospital Audits	595,600	644,150	1,239,750	1,284,300	688,700
Medical Audits	74,300	672,640	746,940	603,220	528,920
<b><u>Quality Review and Prior Authorization Activity</u></b>					
Durable and Non Durable Medical	New	49,550	49,550	106,990	106,990
Pharmacy Program	589,400	179,250	768,650	916,690	327,290
Hospital DRGs	New	0	0	0	0
Medical and Dental Program	595,400	371,630	967,030	779,190	183,790
	1,184,800	600,430	1,785,230	1,802,870	618,070
<b><u>Increased Monitoring of Client Services</u></b>					
Interpreter Services	New	24,780	24,780	42,450	42,450
Transportation Services	New	49,550	49,550	297,720	297,720
<b><u>General Increase in Recoveries and Cost Avoidance</u></b>					
Coordination of Benefits	21,768,900	4,492,600	26,261,500	28,343,570	6,574,670
<b><u>Rates Development and Monitoring</u></b>					
Additional Savings	New	0	0	0	0
<b><u>ACS 4-Brand Rx Limit 1/</u></b>					
Therapeutic Consultation Serv	New	0	0	0	0
<b><u>ACS - Therapeutic Interchange (Preferred Drug List) 1/</u></b>					
Prescription drugs per capita	New	0	0	0	0
<b><u>Family Planning Waiver 2/</u></b>					
Change in Pregnancy Rate	New				
<b>Total UCCI Savings</b>	23,623,600	6,484,150	30,107,750	32,374,100	8,750,500
FTEs (Compensation only)					(278,100)
1/ ACS formerly Consultec (Thera. Consultation Service)					(566,700)
Consultant Services					(20,000)
Net July - December UCCI Savings toward \$50 million biennial requirement:					7,885,700
2/ Family Planning Savings and expense is not included.					(Rounded)
3/ Savings toward \$50 million biennial requirement equals Actual Savings minus Baseline.					

## **Exhibit E -Therapeutic Consultation Service - Four (4) -Brand Prescription Limit, and Preferred Drug List**

Central to achieving the department goals for Therapeutic Consultation Service (TCS) is facilitating the involvement of the critical participants in the administration of drug therapy: the prescribing physician, the dispensing pharmacy, and the patient. Also crucial to ensuring program acceptance is making compliance with the program as convenient as possible.

As an initial step in smoothing program implementation, we will provide the Therapeutic Academic Service program. Prior to start-up (and ongoing thereafter) clinical pharmacists will travel to physicians' offices and begin professional dialogue aimed at improving drug regimens and exploring clinically sound and cost effective treatment options for Medicaid recipients. Therapeutic Academic Intervention will consist of face-to-face detailing sessions with those physicians most impacted by the program.

Two pharmacists will each visit 50 – 60 physicians per month. The pharmacists will start with prescribers most impacted by the Therapeutic Consultation Service and will continue for the length of the contract with Consultec.

The Therapeutic Consultation Service process can be initiated under two circumstances: when a claim for a non-preferred drug is submitted, or when a recipient exceeds the four brand prescriptions per month trigger. Regardless of which of the two circumstances initiate the process, the prescribing physician must call the TCS call center and enter into a therapeutic consultation with a trained clinical pharmacist.

When a pharmacy submits a claim for a non-preferred drug, the electronic claims processing system returns a reject message to the pharmacy notifying the provider that a non-preferred brand has been requested and therapeutic consultation is required. During those times when the physician cannot be contacted (after hours, holidays), the pharmacist has the option to issue an emergency supply.

If, during the drug regimen review, the TCS pharmacist determines that the patient's profile indicates the need for more intensive case management activity, the case can be referred to the Intensive Benefits Management program. This program focuses on the clinical evaluation of patients' treatment plans. While Therapeutic Consultation Services are primarily comprised of an intervention with a single physician, referral to the Intensive Benefits Management program provides for an in-depth review and subsequent coordination of care aimed at involving all providers rendering care to a given patient.

Intensive Benefits Management utilizes an integrated, drug-based case management model with specific goals to:

- Provide long term drug-based case management of patients
- Coordinate care among all of the patients' providers
- Support appropriate drug utilization and quality of care
- Promote cost-effective pharmaceutical care

Drugs in the following classes are not subject to the four brand prescription edit; they do not automatically trigger a review and do not count against a patient's four brands per month. These drug classes are:

- HIV medications
- Antidepressants
- Antipsychotics
- Immunosuppressants
- Hypoglycemia rescue agents
- Contraceptives
- Chemotherapy, and
- Generic Drugs

These are excluded because there is little or no opportunity for alternatives due to individual patient response to specific drugs in the class. However, they are not excluded from review for possible duplicate drug therapy or drug-drug interactions when another brand name is the trigger.

For now, nursing home clients are excluded from the 5th brand-name prescription trigger for Therapeutic Consultation Service. However, in the future, they may have the 5<sup>th</sup> brand prescription trigger included, if it appears that NH clients would benefit from Therapeutic Consultation Service.

**Preferred Drug List** - MAA chooses a drug or drugs from a selected therapeutic class for placement on the preferred list when the drugs in the class are essentially equal in terms of safety and efficacy; and the selected drug or drugs may be the least costly in the therapeutic class.

MAA's current Preferred Drug List is as follows:

Therapeutic Class	Preferred Drug
Histamine H2 Receptor Antagonist	Ranitidine
Proton Pump Inhibitors	Protonix

## Exhibit F - UCCI Growth and Strengthening

- By July 2002, increase the number of staff who have direct computer access to Medicaid data provided via the department's Payment Review Program contract with Health Watch Technologies (HWT) and HNC Software, Inc. from 66 to 80. This software enables program managers and analysts to call up and analyze Medicaid claims payments and services trends.
- Work with the DSHS Budget Division and the Office of Research and Data Analysis to develop a methodology for the analysis of per capita Medicaid costs and the impact of UCCI by June 1, 2002.
- By April 30, 2002, complete the documentation of activities and criteria for counting savings in all UCCI Components.
- By June 30, 2002, enhance the ability of MAA to track savings from denial of telephoned (versus billed) authorization requests for drug prescriptions and durable medical equipment and supplies. Denials result from the lack of medical necessity, available less costly alternatives, or non-covered benefits. This enhancement will include establishing a baseline, above which UCCI increases in cost avoidance will be measured.

In addition to telephoned authorizations, there is the potential to expand tracking of electronic claims processing system denials/cost avoidance (other than for Third Party Liability-Coordination of Benefits). An example is the Point of Sale (POS) system. *(POS is the real-time pharmacy claims authorization and adjudication system operated by MAA. For certain drugs, POS requires that the pharmacist secures prior authorization (approval) from MAA to fill the prescription - or that conditions/limitations be met for filling the prescription.)*

- By April 30, 2002, complete the identification of potential hospital Diagnostic Related Groups upcoding (unfairly maximizing reimbursement under the DRG payment system) and initiate review of hospital documentation of claims.
- Work (on-going) with the department's Payment Review Program (PRP) staff to identify and follow-up on potential new UCCI savings.
- In addition to the UCCI fact sheet that is currently available, publish a quarterly (or semi-annual) UCCI newsletter.
- Continue to work closely with professional associations and other interest groups and stakeholders to problem solve and provide information and education.
- Explore and test other financing or service delivery options that could improve access, service utilization and cost containment.

**Exhibit G - Comparison of UCCI Savings Baselines and Increases - March 2002 Report Versus Revised Report**

	(Total Funds)						4/3/02
	March 2002 Leg Report			Revised Report			Difference
FY2002	FY02 Base	UCCI Savings Increase	Total	FY02 Base (See Ftnote 1/)	UCCI Savings Increase	Total (See Ftnote 2/)	(Baseline plus UCCI Increase)
	[a]	[b]	[c]	[d]	[e]	[f]	
Field Audits: Hospital	2,440,100	3,700,000	6,140,100	2,404,200	3,700,000	6,104,200	(35,900)
Medical	315,936	2,715,000	3,030,936	300,000	2,715,000	3,015,000	(15,936)
Pharmacy Quality Review	3,000,750	2,000,000	5,000,750	2,466,100	1,500,000	3,966,100	(1,034,650)
Medical/Dental Quality Review	2,435,600	2,000,000	4,435,600	2,403,300	1,500,000	3,903,300	(532,300)
Coordination of Benefits (COB)	82,970,800	23,029,200	106,000,000	87,866,400	18,133,600	106,000,000	0
Sum of Baseline Savings & UCCI	91,163,186	33,444,200	124,607,386	95,440,000	27,548,600	122,988,600	(1,618,786)
	March 2002 Leg Report			Revised Report			Difference
FY2003	FY03 Base	UCCI Savings Increase	Total	FY03 Base (See Ftnote 1/)	UCCI Savings Increase	Total	(Baseline plus UCCI Increase)
Field Audits: Hospital	2,513,300	4,700,000	7,213,300	2,440,700	4,700,000	7,140,700	(72,600)
Medical	333,200	2,715,000	3,048,200	305,300	2,715,000	3,020,300	(27,900)
Pharmacy Quality Review	3,450,863	2,500,000	5,950,863	2,555,500	2,500,000	5,055,500	(895,363)
Medical/Dental Quality Review	2,507,000	2,000,000	4,507,000	2,438,900	2,000,000	4,438,900	(68,100)
Coordination of Benefits (COB)	87,700,100	22,899,900	110,600,000	89,819,800	20,180,200	110,000,000	(600,000)
Sum of Baseline Savings & UCCI	96,504,463	34,814,900	131,319,363	97,560,200	32,095,200	129,655,400	(1,663,963)
<b>Summary of Changes:</b>					Total	State	
Difference In Biennial <u>UCCI Savings Targets</u> , between March Report and Revised Report:					(8,615,300)	(4,269,000)	
Difference In Biennial <u>Baseline Savings</u> between March Report and Revised Report:					5,332,551	2,642,000	
					(3,282,749)	(1,627,000)	
1/ Baseline changes were due to improved historical data, more precise inflation information, and with COB, correction of the FY01 base to the level reported in the October 2001 report to the Legislature. (See page 5 of the October report.)							
2/ As noted in the "Summary of Changes" above, baselines savings were adjusted upward by \$5.3 million Total [\$2.6 State]. UCCI targets were then adjusted downward in order to maintain realistic targets near the mandated \$82 million Total [\$50 million State]. Also, the FY02 Rates Development & Monitoring Savings Target (a new UCCI component) was adjusted downward. See the revised UCCI targets on page 2 and in Exhibit A and B.							
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# Exhibit H. FY2000 Savings Baselines – Adjusted for Inflation to FY02 and FY03 Levels

[Inflation includes the Vendor Rate Increase (VRI) or other changes - See footnotes]								
		Base Year FY00	VRI or Other	FY01	VRI or Other	FY02	VRI or Other <u>6/</u>	FY03
	Vendor Rate Incr. >>		2.0%		2.1%		1.15%	
Field Audits - Hospital <u>1/</u>		\$ 2,300,000	2.20%	\$ 2,350,600	2.28%	\$ 2,404,200	1.52%	\$ 2,440,700
	Medical <u>2/</u>	285,000	2.52%	\$ 292,200	2.69%	\$ 300,000	1.78%	\$ 305,300
Pharmacy Quality Review <u>3/</u>		2,269,000	4.07%	\$ 2,361,300	4.44%	\$ 2,466,100	3.63%	\$ 2,555,500
Medical/Dental Quality Review <u>4/</u>		2,300,000	2.18%	\$ 2,350,100	2.26%	\$ 2,403,300	1.48%	\$ 2,438,900
Coordination of Benefits (COB) <u>5/</u>		\$ 74,900,000	N/A	\$ 85,500,000	2.77%	\$ 87,866,400	2.22%	\$ 89,819,800
Footnotes:								
<u>1/</u> <b>Hospital Audit:</b> Eighty percent of hospital reimbursement is by Diag. Related Group. DRG rates receive the VRI. Annual inflation in the 20% remaining of expenditures (ratio of cost to charges rate) is approximately 3% per year.								
<u>2/</u> <b>Medical Audit</b> recoveries are expected to average 25% pharmacy in FY01-03. The balance of savings will be inflated by the VRI. See footnote <u>3/</u> below for pharmacy inflation.								
<u>3/</u> Just over 10% of <b>pharmacy</b> expenditures are for the dispensing fees which receive the VRI. The assumption is that the price of ingredients inflates at the rate of the annual (SFY) National Consumer Price Index for Prescription Drugs (below). (FY01 rate = .1 x 2% + .9 x 4.3% = 4.07% FY02 = .1 x 2.1% + .9 x 4.7% = 4.44% and FY03 = .1 x 1.5% + .9 x 3.9% = 3.66%)								
<u>4/</u> <b>Medical/Dental QR</b> recoveries have been 90% hospital overpayments. Med/Dental QR will be inflated by the following: 90% = (.8 x VRI + .2 x 3%), 10% = VRI								
<u>5/</u> <b>COB</b> savings for FY00 and FY01 were "smoothed" as a result of a large FY00 claims backlog processed in FY01. Inflation in COB savings is assumed to be proportionate to the mix of Medicaid services, and inflation those services. Managed Care inflation is not included.								
<u>6/</u> In March 2002, the FY03 Vendor Rate Increase was revised to 1.5 percent by the Legislature and will be effective on July 1, 2002.								
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